



REGULAR MEETING
PUBLIC EMPLOYEES' RETIREMENT BOARD

October 9, 2008

Vice President John Paull called the regular meeting to order at 8:30 a.m. Thursday, October 9, 2008. Roll call was taken with all members of the Board being present. Board members and staff present were:

John Paull, Vice President
Darcy Halpin, Member
John Nielsen, Member
Ray Peck, Member
Dianna Porter, Member
Terry Smith, Member
Roxanne Minnehan, Executive Director
Melanie Symons, Legal Counsel
Scott Miller, Legal Counsel
Ursula Hatfield, Executive Assistant

OPEN MEETING

Linda Ulrich, Great West Retirement Services; Kurt Bushnell, Ed Cleary, Scott Moore, Matt Norby, and Rick Ryan, members of the Montana State Firefighter's Association; Tom Schneider, MPEA; Leo Berry, AMRPE; Don Kinman, Jim Twardoski and Linda Zander, AFSCME; Clifford Sheets, BOI; Ed Dawes and Pam Fleisher, Employee Investment Advisory Council, Mark Johnson and Pat Kahle, Milliman; and Renae Deadmond, Internal Auditor; Kim Flatow, Member Services Bureau Chief; Diann Levandowski, Assistant Fiscal Bureau Chief; Angel Molyneaux, Training Specialist; Barb Quinn, Fiscal Services Bureau Chief; Kathy Samson, DC Education Services Bureau Chief; and Joel Thompson, Training Specialist, joined the meeting.

MINUTES OF OPEN MEETING

The minutes of the open meeting of September 11, 2008 were presented.

Motion: Mr. Terry Smith moved to approve the minutes of the September 11, 2008 PERB Regular Open Meeting with corrections.

Second: Ms. Dianna Porter

No public comment.

Vote: 6/0

Public Comment on any subject of interest not on the Board agenda:

Vice President Paull announced President Jay Klawon's resignation, noting Mr. Klawon's service on the Board.

With the implementation of the DC Plan a new position was added to the Board - that being someone with Investment Experience. Jay Klawon was appointed in that capacity in January 2000. Jay served as our liaison with Board of Investments until March 2005. He served on each of the Board Committees: Joint Issues, Personnel, Legislative and Union Negotiations, Executive Director Hiring, Education. He also served on several RFP Committees for the implementation of the DC Plan. He has served as Board President since November 2007.

Jay was a valuable asset when the Board first started administering the 457(b) Plan and initiated the 401(a) DCRP. He was particularly helpful as a member of the Education Committee when the Board was struggling with the differences between education, guidance and advice. He is extremely loyal to his convictions and to those who he respected for their work ethic.

Jay was dedicated to our members and through his tenure on the Board gained understanding and appreciation for public employees as well as the value of their DB retirement plans. This was a little bit of a challenge for Jay coming from the private sector and as an investment broker. It could have been very easy for Jay to champion the value of DC plans, but he was able to respect the differences and values of both plans. While he was there to provide his expertise to the investment arena, he took the concerns of all members to heart.

Jay was not hesitant to speak his mind and voice his opinion. But always, when doing so, was aware of the impact and was kind and thoughtful even with tough decisions.

EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director

Board of Investment (BOI) FY Review and Economic Outlook – Clifford Sheets, BOI

The BOI is responsible for investing the trust funds; the Public Employees' Retirement Board has a fiduciary responsibility to the retirement plans and members. Mr. Clifford Sheets, Chief Financial Officer at the Board of Investments presented the FY 2008 results. The report included discussion of the asset allocation, past and expected investment performance, investment goals and strategies

as well as how Montana retirement system investments and performance compares with other state retirement system performance. In summary – asset allocation is becoming more diversified; volatility is increasing; however, long-term returns are greater than 8%. Economic outlook is bleak – historically markets recover significantly five years after decline.

FY 2008 Actuarial Valuations Results – Mark Johnson and Pat Kahle, Milliman

Mr. Mark Johnson and Ms. Patricia Kahle, Milliman Consultants and Actuaries presented the results of the FY 2008 Actuarial Valuations. Generally, the funded ratios for the retirement systems have remained relatively stable despite the investment losses during 2007-2008. This is due to the dampening effect of the asset smoothing method and the delayed recognition of the full 2007-2008 investment loss. The investments had a negative return; however, the asset smoothing helped to defer some of the losses. All the plans have less than a 30 year amortization period as of June 30, 2008.

Mr. Johnson stated that the PCR-UAL is \$17.5M and will take approximately 9 years to amortize including the additional employer contributions. Because this is well under the acceptable range of 17.75 years, there is no reason to discuss an increase in the PCR.

Responding to a statement by Mr. Smith that the Defined Contribution retirement plan had virtually no impact on the Defined Benefit retirement plan, Mr. Johnson stated that new hires have little impact but that there is less payroll which makes it harder to amortize the unfunded liability that everyone shared in. Mr. Johnson described the PCR-UAL as a partnership mortgage where the members no longer living in the house still have to pay off their share of the mortgage.

Due to the asset smoothing method there are net investment losses that have not yet been recognized. The current negative balance will gradually be reflected in the Actuarial Value of Assets.

The reports are located on the MPERA website under publications, actuarial valuations: <http://mpera.mt.gov/actuarialValuations.asp>

Board Education – Hedge Funds and Market Conditions – Michael Schlachter, Wilshire

Mr. Michael Schlachter, Wilshire Associates Consulting Group presented the October Education Topic. The BOI is exploring adding hedge funds to the retirement portfolios. Mr. Schlachter discussed what hedge funds are, how they work and the pros and cons of investing in hedge funds. A hedge fund is a private investment fund open to a limited range of investors which is permitted by regulators to undertake a wider range of activities than other investment funds and which pays a performance fee to its investment manager. Each fund will have its own strategy which determines the type of investments and the methods of investment it undertakes. Hedge funds as a class invest in a broad range of investments, from shares, debt and commodities to works of art. Hedge funds often seek to offset potential losses in the principal markets they invest in by hedging their investments using a variety of methods, most notably short selling. Short selling is the practice of selling a financial instrument that the seller does not own at the time of the sale. Short selling is done with the intent of later repurchasing the financial instrument at a lower price.

PERS, Local Government Contract – Frenchtown Rural Fire District

Legal staff has reviewed the governmental qualification of Frenchtown Rural Fire District. Staff recommends approval of their request for PERS coverage.

Motion: Ms. Darcy Halpin moved to uphold staff recommendation and approved the PERS contract for Frenchtown Rural Fire District.

Second: Ms. Dianna Porter

No public comment.

Vote: 6/0

Reconsider Retreat Date

The retreat is scheduled for Thursday, November 13. The Joint Issues Committee would like to meet on that date as board members from PERS, TRS and BOI will be in town for their respective board meetings. Newer Board members would like more information (at the retreat) on the PERS-Defined Contribution Retirement Plan (PERS-DCRP) and our member communications. Ms. Samson is the DC Plans and Education Services Bureau Chief, she should be attending this meeting, however; she will not be available for the November date selected. Staff is recommending keeping the PERB Board meeting Friday, November 14, due to the Joint Issues meeting on Thursday, November 13. Move the Board Retreat to Thursday, December 11 and the PERB Board meeting to Friday, December 12.

Motion: Ms. Darcy Halpin moved to change the Board Retreat to Thursday, December 11 and the Regular December Board Meeting to Friday, December 12.

Second: Mr. John Nielsen

No public comment.

Vote: 6/0

PIMCO Fees Disclosure – 457 Stable Value Account – Kathy Samson

MPERA has a fee schedule disclosure from PIMCO that needs to be acknowledged and agreed with by the Board. The disclosure identifies that use of PIMCO portfolios and the corresponding fees that may be used in the Deferred Compensation (457) Plan's stable value fund. PIMCO takes the assets from the 457 Plan stable value fund and uniquely charges us to invest those assets as they see it is best for the plan. This is an investment management fee.

Motion: Ms. Dianna Porter moved to uphold staff recommendation to accept and sign the PIMCO fees disclosure for use of their mutual fund within the 457 Deferred Compensation Plan's stable value fund's separate account.

Second: Mr. John Nielsen

No public comment.

Vote: 6/0

Contested Case – Melanie Symons

Informal Consideration – FURS Coverage Request, West Yellowstone

West Yellowstone is a town that would like to join FURS coverage for their firefighters. FURS was initially implemented to cover cities of first and second class. Allowing those cities, if they are reduced to the third class or town to continue participation. October 1, 2001 coverage was expanded to new hires in the Montana Air National Guard. Last session coverage was again expanded to allow a city that is not covered and any rural fire district department with full-paid firefighters to adopt a resolution for coverage. Towns were not addressed in that legislation. Staff has discussed this with the Montana State Firefighter's Association. West Yellowstone is a town. Strict adherence to the statute does not allow West Yellowstone coverage. MPORS has similar language. Staff did allow West Yellowstone coverage under MPORS in July 1, 2006. Staff recognized and openly admits that this was in error. Mr. Norby (Montana State Firefighter's Association) has been working with West Yellowstone and addressed the Board. Mr. Norby stated that West Yellowstone is willing to look at other options if the Board does not approve them to join FURS. He stated they would look into pursuing legislation to change the statute to allow towns to join FURS. Mr. Peck pointed out that the statute does not say a town cannot join FURS. Ms. Symons counseled that the statute clearly states who can join. Mr. Peck stated that by the Board not approving this it could be perceived that we do not want them to join FURS. Mr. Nielsen and Mr. Miller stated that a representative or lobbyist would advocate that this is not the case; the Board was following the statute as it is written.

Motion: Mr. John Nielsen moved to deny the town of West Yellowstone's request to join FURS.

Second: Ms. Darcy Halpin

Motion: Mr. Ray Peck moved a substitute motion to approve the town of West Yellowstone's request to join FURS.

Second: Mr. John Paull

Vote: 2/4 with Mr. Halpin, Mr. Nielsen, Ms. Porter and Mr. Smith voting nay. Motion fails and the Board reverted to the original motion.

Motion: Mr. John Nielsen moved to deny the town of West Yellowstone's request to join FURS.

Second: Ms. Darcy Halpin

Vote: 4/2 with Mr. Peck and Mr. Paull voting nay.

Conference Report – NAGDCA – Darcy Halpin, Kathy Samson, and Melanie Symons

Ms. Halpin, Ms. Samson and Ms. Symons attended NAGDCA in September.

Ms. Halpin informed the Board of the workshops she attended. She attended a workshop for new trustees. They spoke of organizations that will try to influence them and to use their best judgment in these situations.

Ms. Symons stated she attended the Stable Value workshop, Developing a Rollout Strategy and So You Are a New Trustee. The last day she received information from the IRS in regards to IRAs and the Pension Retirement Act.

Ms. Samson spoke of attending workshops that talked about the market volatility. Ms. Samson moderated a session called Participant Communications During Unstable Market Conditions. The session was about staying the course, diversifying, and remember your retirement assets are for long-term.

SAVA Update – SAVA's final meeting – Roxanne Minnehan

SAVA met for the final time September 22. Ms. Minnehan updated the Board about the topics SAVA addressed. 1.) SAVA looked at a proposal that would enhance JRS benefits by increasing the factor after 15 years of service. Sen. Carol Williams will sponsor this bill for the judges. SAVA didn't vote on this proposal. 2.) Mr. David Senn from TRS recommended they get their own actuary to verify the systems' actuary. 3.) Mr. David Niss stated they have our rule package and addressed this with the members of SAVA. Mr. Niss requested SAVA to direct him to write a strong letter to MPERA regarding the statements of reasonable necessity. We received the letter. It is included in the Board packet. The letter did not request any significant changes.

BOI Special Teleconference – Roxanne Minnehan

The Board of Investments held a special teleconference meeting Wednesday, September 24. The BOI addressed their reaction to the market conditions. They are diversified in their portfolios, staying the course and are not going to change their investment strategies. They addressed the perpetual nature of governmental defined benefit plans. Since 1994 (the point they started tracking) the PERS has averaged an annual return of 8.47%.

Verbal Update – MPERA Staffing – Roxanne Minnehan

Receptionist position has been offered and accepted, the formal letter has not been returned.

IT Programmer interviews are being conducted.

Retiree Database Support interviews are being conducted.

Disabilities Examiner, is currently open and will be posted next week internally.

Administrative Support, Member Services is a new position and is currently being classified.

Verbal Update – Board of Investments (BOI) – John Paull

Mr. Paull did not give an update due to Mr. Sheets' presentation.

Verbal Update – Litigation – Melanie Symons, Scott Miller

Ms. Symons updated the Board on the rule hearings held on Friday, October 3. No one from the public showed for the hearings. The comment period ends October 17, they will respond to Mr. Niss' comments.

Cycle C filing, qualification filing for our Defined Benefit Plans has been completed by the deadline. October 1 was the date in which to submit these to the IRS. ICE Miller has been assisting with this filing.

Mr. Miller stated Mr. Bullock contacted him in regards to the MPPA case. MPPA's actuary contacted Mr. Miller to work out the information needed. The appeal process has expired.

Next Board Meeting

November 14, 2008
December 12, 2008

Board Retreat

December 11, 2008

The following portion of the meeting relates to matters of individual privacy. The Board President determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

CLOSED MEETING

Reconvene of open meeting

The minutes of the regular closed meeting of September 11, 2008 were presented.

Motion: Mr. John Nielsen moved to approve the minutes of the September 11, 2008 PERB Regular Closed Meeting.

Second: Mr. Terry Smith

Vote: 6/0

Finalized Service Retirements Disability Benefit Payments - Kim Flatow

Motion: Mr. Terry Smith moved to approve the Finalized Service Retirement/Disability Benefit Payments with addendum and corrections.

Second: Ms. Dianna Porter

Vote: 6/0

ADJOURNMENT

There being no further business before the Board, Ms. Darcy Halpin moved to adjourn the meeting, Mr. Terry Smith seconded. All voted aye, next regular meeting will be Friday, November 14, 2008. Meeting closed at approximately 3:00.

The Board went into Executive Session with the Executive Director to discuss the Executive Director's performance.